

**SPIRIT LAKE COMMUNITY FIRE DEPARTMENT
SPIRIT LAKE, IOWA
INDEPENDENT AUDITORS' REPORTS
FINANCIAL STATEMENT AND
SCHEDULE OF FINDINGS
JUNE 30, 2009**

SPIRIT LAKE COMMUNITY FIRE DEPARTMENT

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SPIRIT LAKE COMMUNITY FIRE DEPARTMENT

OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>REPRESENTING</u>
(From July 1, 2008 through December 31, 2008)		
Dale Palmberg	Chairman	City of Orleans
Clyde Ihrke	Vice-Chairman	City of Spirit Lake
Ed McClurg	Secretary/Treasurer	Township of Spirit Lake
Kevin Bice	Member	City of Spirit Lake
Wally Jorgensen	Member	Township of Center Grove
Linda Voss	Member	Township of Lakeville
(From January 1, 2009 through June 30, 2009)		
Dale Palmberg	Chairman	City of Orleans
Clyde Ihrke	Vice-Chairman	City of Spirit Lake
Linda Voss	Secretary/Treasurer	Township of Lakeville
Kevin Bice	Member	City of Spirit Lake
Wally Jorgensen	Member	Township of Center Grove
Roger Overocker	Member	Township of Spirit Lake

WINTHER, STAVE & CO., LLP
Certified Public Accountants

1316 West 18th Street
P.O. Box 175
Spencer, Iowa 51301-0175
Phone 712-262-3117
FAX 712-262-3159

1004 21st Street #4
P.O. Box 187
Milford, Iowa 51351
Phone 712-338-2488
FAX 712-338-2510

INDEPENDENT AUDITORS' REPORT

To the Members of the
Spirit Lake Community Fire Department
Spirit Lake, IA 51360

We have audited the accompanying statement of cash receipts, disbursements, and changes in cash basis net assets of the Spirit Lake Community Fire Department for the year ended June 30, 2009. This financial statement is the responsibility of the Department's management. Our responsibility is to express an opinion on the financial statement based on our audits.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the financial statement is prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the cash basis financial position of the Spirit Lake Community Fire Department as of June 30, 2009 and the changes in its cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 14, 2010 on our consideration of the Department's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Department has not presented management's discussion and analysis which introduces the basic financial statement by presenting certain financial information as well as management's analytical insight on that information that the Government Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statement.

Wincher, Stano Co. Ltd

May 14, 2010

FINANCIAL STATEMENT

SPIRIT LAKE COMMUNITY FIRE DEPARTMENT
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BASIS NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2009

	General Operating Fund	Firemen's Fundraising Fund	First Responders Special Fund	Total
OPERATING RECEIPTS:				
City and township contributions	\$235,541			\$235,541
Refunds and reimbursements	<u>4,284</u>	<u>\$ 222</u>	<u>\$ 3,745</u>	<u>8,251</u>
TOTAL OPERATING RECEIPTS	<u>239,825</u>	<u>222</u>	<u>3,745</u>	<u>243,792</u>
OPERATING DISBURSEMENTS:				
Administrative net wages	9,419	1,800		11,219
Part-time firefighters net wages	5,175			5,175
Payroll tax deposits	2,479			2,479
Volunteer firemen fees and expenses	32,573			32,573
Training and other administrative expenses	6,334			6,334
Building and grounds	8,853			8,853
Utilities	8,498			8,498
Professional fees	14,575			14,575
Insurance	22,551			22,551
Vehicle operations	12,483			12,483
Repairs and supplies	9,674			9,674
First responders fees and expenses			2,982	2,982
Telephone	<u>1,960</u>			<u>1,960</u>
TOTAL OPERATING DISBURSEMENTS	<u>134,574</u>	<u>1,800</u>	<u>2,982</u>	<u>139,356</u>
EXCESS (DEFICIENCY) OF OPERATING RECEIPTS OVER (UNDER) OPERATING DISBURSEMENTS	<u>105,251</u>	<u>(1,578)</u>	<u>763</u>	<u>104,436</u>
NON-OPERATING RECEIPTS (DISBURSEMENTS):				
Interest on investments	1,125			1,125
Grants and contributions	3,121	2,025		5,146
Fundraising receipts		26,170		26,170
Fundraising expenses		(12,403)		(12,403)
Loan payments:				
Principal	(39,401)			(39,401)
Interest	(5,379)			(5,379)
Equipment purchases	<u>(7,149)</u>	<u>(7,523)</u>		<u>(14,672)</u>
TOTAL NON-OPERATING RECEIPTS (DISBURSEMENTS) - NET	<u>(47,683)</u>	<u>8,269</u>		<u>(39,414)</u>
CHANGE IN CASH BASIS NET ASSETS	57,568	6,691	763	65,022
CASH BASIS NET ASSETS - BEGINNING OF YEAR (AS RESTATED)	<u>97,977</u>	<u>16,189</u>	<u>2,285</u>	<u>116,451</u>
CASH BASIS NET ASSETS - END OF YEAR	<u>\$155,545</u>	<u>\$ 22,880</u>	<u>\$ 3,048</u>	<u>\$181,473</u>
CASH BASIS NET ASSETS:				
Unrestricted	<u>\$155,545</u>	<u>\$ 22,880</u>	<u>\$ 3,048</u>	<u>\$181,473</u>

See Notes to Financial Statement

SPIRIT LAKE COMMUNITY FIRE DEPARTMENT
NOTES TO FINANCIAL STATEMENT
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Spirit Lake Community Fire Department was formed in 1985 pursuant to the provisions of Chapter 28E of the Code of Iowa. The purpose of the Department is to provide fire protection and aid and assistance for other emergencies or disasters relating to life or property to the units of government which are members of the Department.

The governing body of the Department is composed of three representatives from the four member townships and three representatives from the two member cities. The Department members are Lakeville, Diamond Lake, Spirit Lake, and Center Grove Townships of Dickinson County and the Cities of Spirit Lake and Orleans.

Reporting Entity

For financial reporting purposes, the Spirit Lake Community Fire Department has included all funds, organizations, agencies, boards, and commissions. The Department has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Department are such that exclusion would cause the Department's financial statement to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Department to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Department. The Department has no component units which meet the Governmental Accounting Standards Board criteria.

Basis of Presentation

The accounts of the Department are organized as an Enterprise Fund. Enterprise Funds are utilized to finance and account for the acquisition, operation, and maintenance of governmental facilities and services supported by user charges.

Enterprise Funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an Enterprise Fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

Basis of Accounting

The Spirit Lake Community Fire Department maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Department are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present the financial position and results of operations of the Department in accordance with U.S. generally accepted accounting principles. Subsequent events were evaluated by management up to the date of the auditors' report, which is the date the financial statements were available to be issued.

SPIRIT LAKE COMMUNITY FIRE DEPARTMENT
NOTES TO FINANCIAL STATEMENT - Continued
JUNE 30, 2009

2. CASH AND INVESTMENTS

The Department's deposits in banks at June 30, 2009 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Department is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Department; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district. The Department has not formally adopted an investment policy.

The Department had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

3. RISK MANAGEMENT

The Spirit Lake Community Fire Department is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance. The Department assumes liability for any deductibles and claims in excess of coverage limitation. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

SPIRIT LAKE COMMUNITY FIRE DEPARTMENT
NOTES TO FINANCIAL STATEMENT - Continued
JUNE 30, 2009

4. NOTES PAYABLE

The Department has a note payable to a bank, secured by a fire truck. The original amount of the note was \$365,000. The balance outstanding was \$108,260 at June 30, 2009. This note is payable in yearly installments of \$29,780 including interest at 4% through the year ending June 30, 2013.

The Department also has a note payable to the State of Iowa, secured by a fire truck. The original amount of the note was \$150,000. The balance outstanding was \$105,000 at June 30, 2009. This note is payable in equal semi-annual installments of \$7,500 through the year ending June 30, 2016. The note is interest free.

Annual debt service requirements to maturity for the above notes are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 40,568	\$ 4,212	\$ 44,780
2011	41,472	3,308	44,780
2012	42,531	2,249	44,780
2013	43,689	1,091	44,780
2014	15,000		15,000
2015 - 2016	<u>30,000</u>	<u> </u>	<u>30,000</u>
Total	<u>\$213,260</u>	<u>\$ 10,860</u>	<u>\$224,120</u>

5. RESTATEMENT OF BEGINNING NET ASSETS

The beginning of the year net assets were restated to include the beginning of the year cash balances of the Firemen's Fundraising Fund and the First Responders Special Fund.

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1316 West 18th Street
P.O. Box 175
Spencer, Iowa 51301-0175
Phone 712-262-3117
FAX 712-262-3159

1004 21st Street #4
P.O. Box 187
Milford, Iowa 51351
Phone 712-338-2488
FAX 712-338-2510

INDEPENDENT AUDITORS' REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF A FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Members of
Spirit Lake Community Fire Department
Spirit Lake, IA 51360

We have audited the accompanying financial statements of the Spirit Lake Community Fire Department as of and for the year ended June 30, 2009 and have issued our report thereon dated May 10, 2010. Our report expressed an unqualified opinion on the financial statement which was prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statement but not for the purpose of expressing our opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies including a material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affect the Department's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the Department's financial statement that is more than inconsequential will not be prevented or detected by the Department's internal control. We consider the deficiencies in

internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statement will not be prevented or detected by the Department's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiencies referred to above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statement of the Spirit Lake Community Fire Department is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Department's operations for the year ended June 30, 2009 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statement of the Department. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The Department's written responses to findings identified in our audits are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Department's responses, we did not audit the Department's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the members and customers of the Spirit Lake Community Fire Department and other parties to whom the Department may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Department during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

A handwritten signature in black ink, appearing to read "Wenther, Steve J. K. K. K." with a stylized flourish at the end.

May 14, 2010

SPIRIT LAKE COMMUNITY FIRE DEPARTMENT
SCHEDULE OF FINDINGS

Part I: Findings Related to the Financial Statements

Significant Deficiencies:

- I-A-09 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that one person has primary control over receipt collection, posting, deposit preparation, cash disbursements, and reconciling.

Recommendation - We realize that with a limited number of office employees segregation of duties is difficult. However, the Department should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response - The Board understands the need for segregation of duties and has in place two procedures that they feel will be good internal control. The first procedure is that the monthly check for Linda's services for Secretary/Treasurer be signed by Chairman Palmberg or member Wally Jorgensen. The second procedure is a quarterly accounting of funds in accounts with Liberty Bank with listing of outstanding checks. Each board member is asked to review and accept with his signature the quarterly accounting that is included in the monthly meeting notes.

Conclusion - Response accepted. The Department should continue to evaluate procedures to obtain the maximum internal control possible.

- I-B-09 Separately Maintained Records - The Spirit Lake Volunteer Firemen and the Spirit Lake First Responders maintain separate accounting records. The firemen's account is used primarily to account for their fundraising activities. The first responder's account is used primarily to disburse fees owed to volunteers. These accounts have been included in the financial statements since the groups are not separate legal entities. However, the Board does not approve the disbursements and financial statements of these accounts.

Recommendation - The Department is obligated to account for all funds collected, received, and expended including those of affiliated organizations and groups which are not separate legal entities. We recommend these organizations submit their bills to the Board for review and also submit financial reports for Board approval at least on a quarterly basis.

Response - The Board has instructed the fire chief to present copies of statements and bills paid quarterly. The need for accountability and monitoring will be satisfied when the whole Board reviews the documents presented by both the Firemen's Fund Raiser account and the First Responder account on a quarterly basis.

Conclusion - Response accepted.

SPIRIT LAKE COMMUNITY FIRE DEPARTMENT
SCHEDULE OF FINDINGS - Continued

Part I: Findings Related to the Financial Statements - Continued

I-C-09 Payment to Firemen and First Responders - The firemen and first responders receive payments from the Department for meetings and emergency calls. In addition, the fundraising fund pays their secretary/treasurer a quarterly fee. These payments are not reported to the appropriate taxing authorities as required by law.

Recommendation - We recommend the Department account for all payments to individuals and report the payments on forms W-2 or forms 1099 as appropriate and as required by law.

Response - The Board will make every effort to comply. With help from the firemen's secretary/treasurer and the Board's secretary/treasurer, the 2010 calendar year expenditures to the firemen will be reported on forms W-2's issued in compliance with IRS regulations.

Conclusion - Response accepted.

Instances of Noncompliance:

No matters were noted.

SPIRIT LAKE COMMUNITY FIRE DEPARTMENT
SCHEDULE OF FINDINGS - Continued

Part II: Other Findings Related to Statutory Reporting

II-A-09 Questionable Expenses - We noted that the Firemen's Fundraising Fund paid expenses for parties, awards, a golf outing, and meals which may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

Recommendation - We recommend the Department establish procedures which clarify allowable and unallowable disbursements such as these and document the public purpose served.

Response - The Board will work with the fire chief and establish procedures that clarify allowable expenses and document such expenses with quarterly reports to be included in the minutes.

Conclusion - Response accepted.

II-B-09 Travel Expense - No expenditures of money for travel expenses of spouses of Department officials were noted.

II-C-09 Board Minutes - No transactions were found that we believe should have been approved in the Department minutes but were not.

II-D-09 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa were noted.